Gimme Shelter Meets The CPI

"Oh, a storm is threat'ning / My very life today
If I don't get some shelter / Oh yeah, I'm gonna fade away" – Mick Jagger/Keith Richards

Let me state for the record I hate conspiracy theories; ordinary chance combined with incompetence can explain the majority of human affairs. Moreover, once you start with the black helicopter theories surrounding various government reports, your life gets swallowed up and you achieve little for your efforts. I bet those folks who prattle on about the birth/death estimates included in the monthly employment report find themselves talking to the wall – or each other – after a while.

### Housing-Related CPI Subindices

The Bureau of Labor Statistics is faced with a vexing problem of calculating the cost of shelter on an index basis. I would be happy to know what the year-to-year costs for operating *Chez Simons* are on a complete basis including implied cost of capital, utilities, maintenance and whatever the missus decides is critical to the quality of life. The statisticians arrived at a [measure] for homeowners called owners' equivalent rent (OER) designed to capture "the amount a homeowner would pay to rent, or would earn from renting, his or her home in competitive market."

The explanation continues, "Clearly, the rental value owned homes is not an easily determined dollar amount, and Housing survey analysts must spend considerable time and effort in estimating this value." Well, no [surprise].

However, as shelter is 32.776% of the CPI-U used to calculate things such as TIPS' inflation accrual and the sub-components of OER and rent of primary residence (RPR) account for 23.83% and 5.93%, respectively, of CPI-U, these numbers are important. Not only does real money change hands based thereon, but unreal money does as well: Could the Federal Reserve justify QE2 if the CPI numbers were moving sharply higher?

This is why the numbers displayed below, the housing-related price indices re-indexed to December 1982 and displayed on a logarithmic scale, are eyebrow-raising. I am used to seeing economic price series rise, fall, oscillate, gyrate and flagellate, but I am not used to seeing them move sideways for twenty months.

**Housing-Related Price Indices Flattened After February 2009**
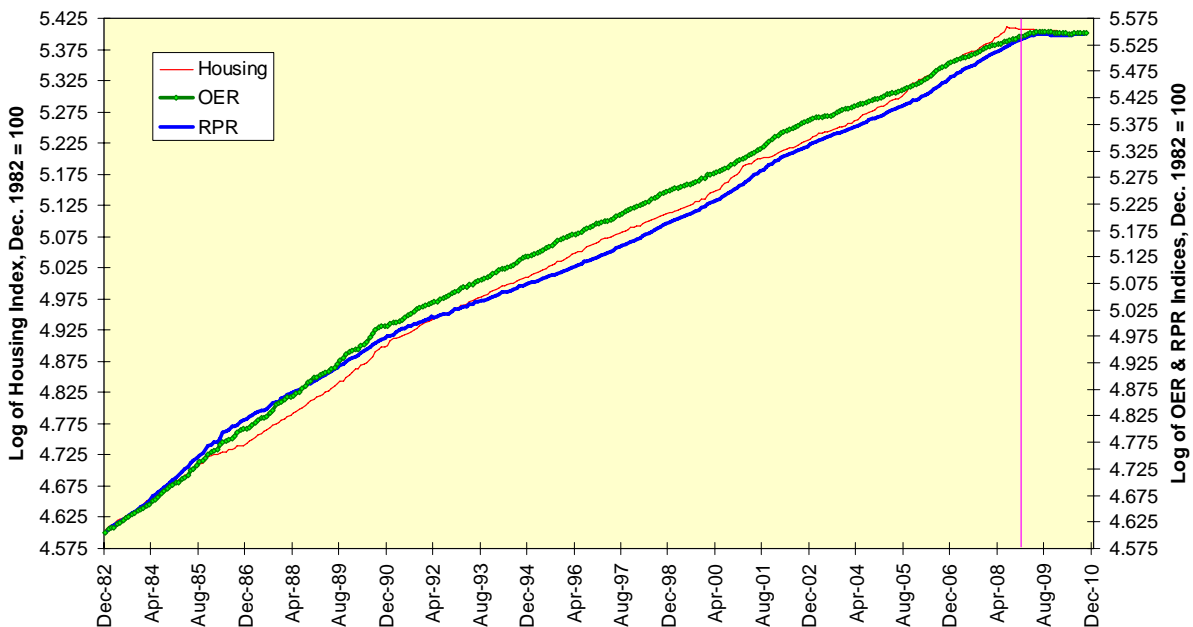
How Different Is It?

The variance of OER from March 2009 onwards has been 0.08; its previous average variance for all previous twenty-month periods has been 9.20. That should be a tipoff to a change in behavior, but let's take it one step further. If we normalize various CPI subindices to the CPI itself and calculate the mean incremental monthly

changes for the period through February 2009 and then for March 2009 onwards, we can calculate the probability the two means are the same. Those are displayed below.

Relative Housing-Related CPI Behavior Changed After February 2009
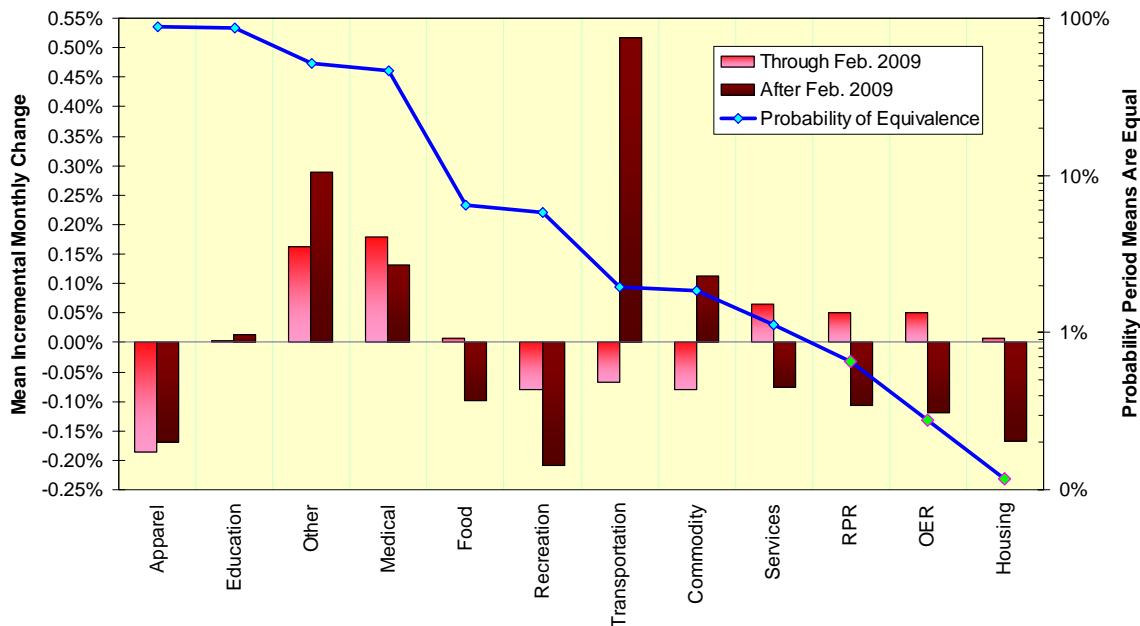
All three housing-related indices have a probability of equivalence of less than 1%. In other words, we can be 99%+ certain the relative behavior of these critical indices has changed. This is quite remarkable when contrasted to the real world experience of watching housing prices fall, rents rise and fall, seeing taxes mostly rise, seeing the housing market distorted by first-time homebuyers' tax credits and the Federal Reserve's purchases of $1.25 trillion of mortgages.

I would no more expect housing-related price indices to be flat for twenty months in such an environment than I would expect glassy seas in a hurricane. And that is all I am going to say.